

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

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P 272317Z FEB 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 8982

C O N F I D E N T I A L OTTAWA 0832

SECSTATE PASS FEA ADMINISTRATOR ZARB

E.O. 11652: GDS

TAGS: ENRG, CA, US

SUBJ: ENERGY: CANADIAN OIL AND GAS

1. I TOOK OCCASION OF INITIAL COURTESY CALL ON EMR MINISTER GILLESPIE (AFTERNOON FEBRUARY 27) TO DESCRIBE MAIN ELEMENTS OF PRESIDENT'S PROPOSAL TO CONGRESS OF LEGISLATION REGARDING ALASKAN NATURAL GAS (PLEASE TRANSMIT TEXT OF BILL ASAP).

2. GILLESPIE, IN TURN, PROVIDED FOLLOWING GENERAL CANADIAN TIMETABLE ON MACKENZIE VALLEY PROJECT:

A. NATIONAL ENERGY BOARD (NEB) HEARINGS WILL PROBABLY RESUME END OF MARCH (SUPREME COURT HEARING ON CHAIRMAN CROWE'S CONTINUED PARTICIPATION SCHEDULED FOR MARCH 8 AND RULING PROMISED SHORTLY THEREAFTER) AND SHOULD BE COMPLETED BY LATE FALL. IN SEPARATE CONVERSATION FEB 25 CROWE WARNED ME, HOWEVER, OF POSSIBILITY THAT HEARINGS COULD EXTEND OVER INTO 1977.)

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B. WHILE BERGER INQUIRY CURRENTLY HAS GOC FUNDING

ONLY THROUGH JUNE, WITH REPORT DUE SEVERAL MONTHS LATER, INQUIRY STAFF IS TALKING IN TERMS OF HEARINGS CONTINUING UNTIL SEPTEMBER AND REPORT SUBMITTED ONLY JUST BEFORE YEAR'S END.

C. ROUGHLY SPEAKING, BERGER REPORT AND NEB RECOMMENDATION SHOULD BE IN HANDS OF GOVERNMENT IN EARLY 1977, THUS PHASING RATHER NICELY WITH PRESIDENT'S PROPOSAL TO HAVE FPC RECOMMENDATION BY FEBRUARY 1.

3. GILLESPIE RAISED ISSUE OF FINANCIAL GUARANTEES FOR PIPELINE CONSORTIUM. GIVEN UNPRECEDENTED MAGNITUDE OF PROJECT, GILLESPIE SEEMS TO FEEL SUCH GUARANTEES WILL BE ESSENTIAL PART OF FINANCING THE PROJECT AND CANADIAN LEGISLATION WOULD PROBABLY BE REQUIRED. HE ASSUMES U.S. SITUATION WOULD BE SIMILAR, BUT WOULD LIKE TO HAVE U.S. THINKING.

4. I RAISED POSSIBILITY OF PRIVATE MEETING WITH FEA ADMINISTRATOR ZARB IN OTTAWA SOMETIME IN MARCH TO DISCUSS PIPELINE TIMETABLE AND RELATED ENERGY MATTERS. GILLESPIE, HOWEVER, INDICATED THAT HE WOULD PREFER TO SEE A LOWER PROFILE FOR THE STEVENS AND MONDALE PIPELINE BILLS AND A CONGRESSIONAL COALESCENCE AROUND THE PRESIDENT'S PROPOSED LEGISLATION BEFORE MEETING WITH ZARB. ON THIS BASIS, A MEETING IN SEVERAL MONTHS' TIME, PERHAPS MAY, WOULD SEEM FEASIBLE. (COMMENT: MAIN FACTOR IS ALMOST CERTAINLY THAT GILLESPIE DOES NOT WANT TO MEET BEFORE 1976-77 GAS AND OIL PRICE DECISIONS ARE MADE; SEE PARA 6 BELOW.)

5. GILLESPIE ALSO RAISED QUESTION OF WHAT WOULD HAPPEN TO PROJECT IF IN 1977 A PRESIDENTIAL DECISION IN ITS FAVOR WERE SUBSEQUENTLY OVERTURNED BY THE CONGRESS.

6. ON THE DOMESTIC ENERGY SCENE, GILLESPIE WILL MEET WITH PROVINCIAL ENERGY MINISTERS IN OTTAWA ON MARCH 5 TO LAY GROUNDWORK FOR FIRST MINISTERS MEETING IN OTTAWA SOMETIME IN APRIL TO SET DOMESTIC OIL AND GAS PRICES
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EFFECTIVE JULY 1. AT MARCH 5 MEETING, GILLESPIE HOPES TO SOUND OUT PROVINCES ON APPROXIMATE SIZE OF PRICE INCREASES, THE LENGTH OF THE PRICE FREEZE PERIOD ON PRODUCTS PRODUCED FROM PRE-JULY 1 CRUDE, AND THE EXTEND TO WHICH INCREASED COSTS RESULTING FROM REFINERY OPERATIONS AND TRANSPORTATION WILL BE ALLOWED TO BE PASSED THROUGH TO CONSUMERS. WITH REGARD TO THE LATTER, GILLESPIE SUGGESTS THAT ANTI-INFLATION BOARD GUIDELINES

SHOULD PREVAIL.

7. GILLESPIE SAID CONSUMER PROVINCES ARE GENERALLY FEARFUL THAT ANY OIL PRICE INCREASES SHOULD NOT REPEAT NOT EXCEED U.S. BLENDED DOMESTIC/IMPORT PRICES, I.E. \$9.00 - \$9.50 PER BARREL, ON GROUNDS THAT CANADIAN EXPORTS WOULD LOSE COMPETITIVENESS. THIS REASONING LEADS GILLESPIE TO BELIEVE THAT WELL-HEAD PRICE INCREASE WILL PROBABLY BE LIMITED TO \$1.50 PER BARREL, DESPITE HIS DESIRE TO MOVE MORE QUICKLY TO WORLD LEVELS.

8. ALONG WITH AN OIL PRICE INCREASE, GILLESPIE SAID THAT DOMESTIC NATURAL GAS PRICES WILL ALSO RISE. AT PRESENT, HE SAID, THE TORONTO CITY GATE PRICE OF \$1.25 PER MCF IS 85 PERCENT OF OIL EQUIVALENCY. THIS RATION WILL BE MAINTAINED AND PROBABLY WOULD BE RAISED TO 90 PERCENT, BUT THAT IS PROBABLY UNLIKELY. I ASKED WHETHER THIS ALSO MEANT AN INCREASE IN THE EXPORT PRICE WHICH WOULD IMPACT SERIOUSLY ON U.S. INTERESTS. HE SAID THIS COULD BE THE CASE, BUT WOULD NOT REPEAT NO NECESSARILY HAPPEN SIMULTANEOUSLY. ENDERS

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